

**OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C.
20508**

USTR PRESS RELEASES ARE AVAILABLE ON THE USTR HOME PAGE AT WWW.USTR.GOV.

**FOR IMMEDIATE RELEASE
DECEMBER 29, 1999**

**99-105
CONTACT: THOMAS TRIPP
AMY STILWELL
(202) 395-3230**

PRESS STATEMENT: JAPAN FLAT GLASS

The U.S.-Japan Flat Glass Agreement, which was concluded in January 1995, expires at year-end. The Agreement has had some important successes. For example, it resulted in Japan's adoption of energy conservation standards in the housing sector that are already boosting demand for insulating glass, a high-value-added product that will benefit Japanese and American manufacturers alike.

However, important objectives remain unfulfilled:

- On December 21, the Japan Fair Trade Commission issued warnings to five Japanese industry associations and affiliates, including a subsidiary of Japan's largest flat glass manufacturer. These organizations reportedly colluded to intimidate distributors who purchased foreign-manufactured auto replacement glass through price discrimination and other methods.
- MITI's own data show that most Japanese distributors believe that foreign flat glass manufacturers offer equal or better prices, quality and service than Japanese manufacturers. Yet the world's four leading non-Japanese flat glass manufacturers still sell an insignificant amount of glass to Japan.
- Companies with direct ties to Japanese manufacturers have been more successful than their non-Japanese competitors in exporting flat glass through Japan's distribution system.
- More than half of all Japanese flat glass distributors source glass from only one manufacturer. Recently, Japanese manufacturers have tightened their control over the distribution system by increasing their equity holdings in flat glass distributors.

According to Deputy U.S. Trade Representative Richard Fisher, "Despite the successes of the U.S.-Japan Flat Glass Agreement, we remained concerned that anti-competitive behavior

continues to pervade Japan's flat glass market. This concern was recently validated by the warnings issued by the Japan Fair Trade Commission."

"We know that problems still exist in Japan's flat glass market," Ambassador Fisher said. "We look forward to working together with the Japanese Government to resolve these problems, and we will consider all available options as we seek to do so."

- 30 -

Frequently Asked Questions about Japan's Flat Glass Market

Aren't declining prices indicative of increasing competition in Japan's market?

- It is not surprising that prices have declined in Japan for a basic construction material like glass during Japan's worst economic slump in the last 50 years. With the economy beginning to recover, the Japanese manufacturers recently announced a price increase of 15-20%. These took place in the wake of reductions in manufacturing capacity by these firms. The recently announced price increase appears to be the same kind of coordinated action that has beset Japan's flat glass market for decades.
- The most recent data from the JFTC and MITI indicate that foreign manufacturers retain a significant price advantage: according to Japanese glass distributors, foreign manufacturers, including U.S.-based companies, continue to enjoy a strong price advantage over domestic manufacturers while offering equal or better quality products.

Has Market Share Changed Significantly?

- Japan's flat glass market remains divided between three domestic manufacturers, as it has for several decades. MITI's own data indicate that the only change since the Agreement's signing in 1995 was a one percent reduction per year in the second-place firm's market share. This can hardly be construed as a significant change in the competitive landscape, given that the beneficiary of this development was the dominant Japanese manufacturer, Asahi, which now controls more than half of Japan's flat glass market.

Haven't Imports to Japan Increased Dramatically?

- Japan claims that imports now account for 14% of Japan's flat glass market. This statistic distorts the true picture because it includes *all* flat glass products from *all* suppliers to *all* customers. In particular, automotive glass imported by Japanese manufacturers from their U.S.-based subsidiaries or affiliates accounts for 8 of the 14 percentage points accounted for by flat glass imports (in 1997).

- Shipments by Japanese subsidiaries in other countries account for much of the rest of these imports.
- The Flat Glass Agreement was intended to open the market to all foreign competitors, not simply to encourage the Japanese manufacturers to import more from their foreign subsidiaries or affiliates.

Does Japan Import More Flat Glass than the United States?

- Market access is determined by trade access *and* investment access.
- The U.S. glass market is fully open to Japanese companies. Wholly- and partially-owned affiliates of Japanese flat glass manufacturers hold 37% of the U.S. flat glass market. Japanese manufacturers do not need to export to the United States, because they purchased manufacturing capacity within our country.
- In contrast, U.S. manufacturers have not been allowed to purchase capacity in Japan. Japan has a longstanding resistance to direct foreign investment, especially in manufacturing. In keeping with Prime Minister Obuchi's proclaimed desire to attract such capital to Japan, the United States has proposed further steps Japan can take to encourage foreign investment in the glass sector.

Are Distributors Diversifying their Supply Sources?

- MITI's own data indicate that more than half of all flat glass distributors continue to source from a single flat glass manufacturer. Given that much of Japan's glass trade involves commodity glass that varies little from manufacturer to manufacturer, it is difficult to understand why distributors would be so reluctant to diversify suppliers in the absence of coercion.
- Many of those distributors who do not sole-source buy only 5% or less from foreign manufacturers. We are concerned that these represent token purchases.
- We are concerned that the autonomy of Japanese distributors is decreasing as Japanese manufacturers increase their equity holdings in distributors. Japan's Fair Trade Commission has reported that "the higher the ratio of capital investment from domestic manufacturers, the more special agent stores respond that they do not handle import products."

Are U.S. Firms Doing Enough to Compete in Japan?

- The two U.S. companies involved in this issue have an international reputation for excellence. They have been successful all over the world – in Europe, Latin America, North America, and other Asian countries. But not in Japan.

- The biggest and most profitable Japanese manufacturer (Asahi) has a return on equity of three percent; the return on equity of the U.S. company PPG is more than seven times higher. (Japanese companies other than Asahi are reportedly losing money.)
- The efforts of U.S. firms in Japan have been significant. PPG has created a joint venture with a major Japanese trading company; established a large sales force of Japanese nationals, provided sales literature in the Japanese language; offered equal or better quality products; stepped up distribution and fabrication centers in Japan; and quoted very competitive prices. Guardian created a sales subsidiary in Japan and opened a network of warehouses to minimize delivery time. More recently, it has established two consolidated warehouse/cutting/sales centers, and recently introduced a new distribution system that will enable it to provide 24-hour service to Japan's flat glass market for the first time.
- MITI's own data indicate that, over the last five years, foreign manufacturers have made great progress in burnishing their reputation in the Japanese market. Among Japanese distributors who currently handle foreign flat glass, more than half regard foreign flat glass as equal to or better than Japanese-manufactured glass in terms of prices, quality, and service.